

University Examinations April 2012

EXAMINATION FOR THE DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 100: Financial Accounting

DAY&DATE: FRIDAY 20TH APRIL 2012

TIME: 2 HOURS 2.00 P.M. – 4.00 P.M.

INSTRUCTIONS:

ANSWER QUESTION ONE (COMPULSORY 25MARKS) AND ANY OTHERTHREE QUESTIONS (EACH 15 MARKS)

QUESTION ONE

The following is the Trial Balance of XYZ Ltd for the financial year ending 30 June 2010.

XYZ Ltd
Trial Balance
As at 31.06.2010

	Dr.	Cr.
	Kshs	Kshs
Capital		32,500
Equipment	42,500	
Motor Vehicle	4,750	
Opening stock	875	
Cash	138	
Bank Overdraft		1,460
Bank Loan (Long Term)		14,000
Purchase and sales	77,625	124,075
Creditors and Debtors	1,725	3,125
Wages	21,475	
Drawings	12,748	
Purchase returns		980
Sales return	1,288	
Non-operating receipts		2,500
Rent and Rates	13,423	
Advertising	780	
Sundry expenses	23	
Motor expenses	975	
Telephone and postage	315	
	178,640	178,640

Additional Information

- i) Closing stock Ksh 1,175
- ii) Depreciation on straight line basis
 - Equipment 15% on cost
 - Motor vehicle 20% on cost

Required: Prepare the XYZ Trading, Profit and loss Account and Balance Sheet as at 30 June 2010.

NB: Trading Account	(5 marks).
Profit and loss Account	(10 marks)
And balance sheet	(10 marks)

QUESTION TWO

ABC started a new business on 1 October 2011. The transactions they undertook were as follows:

- 1 October: Introduced personal cash of Kshs 15,000.
- 3 October: Purchased 100 suitcases for resale on credit from Bobata cost of Kshs 3,000.
- 5 October: Sold 50 of the suitcases for cash of Kshs 2,900.
- 14 October: Paid Angelo the Saturday assistant cash of Kshs 50.
- 17 October: Bought a delivery bicycle on credit from Momanyi at a price of Kshs 540
- 22 October: Paid telephone and broadband charges of Kshs 60
- 27 October: Sold a further 20 suitcases to Alex on credit for a total price of Kshs 1,240.
- 28 October: Paid Kshs 150 from the business bank account to pay a personal expense
- 31 October: Made a part-payment of Kshs 1,500 to Bob.

There were 30 suitcases left in inventory at the end of the month.

Required:

- a) Prepare the journal entries to record the above transactions. (10 marks)
- b) Prepare a Trial Balance as at 31st October 2011 (5 marks)

QUESTION THREE

- a) List and Explain Five Concepts and Principles of Accounting. (5 marks)
- b) What are the limitations of Financial Accounting? (4 marks)
- c) Discuss briefly the importance of ethical behaviour in the preparation of financial statements (6 marks)

QUESTION FOUR

- a) Identify at least 6 different users of financial accounting information. (3marks)
- b) For each of the different stakeholders above, state what their principal interest will be in a business and then suggest which information within a set of financial statements will principally interest them. (6marks)
- c) Explain the following terms as used in Financial Accounting:
- i. Depreciation (2 marks)
 - ii. Reserves (2 marks)
 - iii. Provision (2 marks)

QUESTION FIVE

- a) Explain the significance of the following financial ratios in decision-making:
- i. Return on Investments (ROI) (2 marks)
 - ii. Current Ratio (2 marks)
 - iii. Gross Profit (2 marks)
- b) ABC Ltd is an expanding private company in the electric trade. Accounts prepared in January 2012 included the following:

ABC Ltd
Profit Statement
For the Year ended 31st December:

	2009	2010
	Kshs	Kshs
Sales	2000	3200
Less: Cost of Goods Sold	1100	1800
Gross Profit	900	1400
Less: Trading Expenses	450	550
Trading Profit	450	850
Less: Debenture Interest	25	25
Net Profit Before Taxation	425	825
Less: Corporation Tax	160	320
Net Profit After Taxation	265	505
Less: Ordinary Share Dividend	125	175
Undistributed Profit for the Year	140	330

Required:

Compute

- | | |
|-----------------------------|-----------|
| a) Gross profit percentage | (2 marks) |
| b) Net Profit Percentage | (2 marks) |
| c) Earnings Per share (EPS) | (2marks) |
| d) Dividends Per Share | (3 marks) |

QUESTION SIX

- a) Describe two types of errors which affect the agreement of the trial balance (2 marks).
- b) While extracting the trial balance of XYZ Electrical Engineers Ltd as at 31st December 2009, it was observed that the total debits exceeded the total credits by Kshs 47,600. Investigations revealed the following errors:
- i) Sales had been overcast by Kshs 3,000
 - ii) Returns Outwards Account had been debited with Kshs 12,264
 - iii) A payment by a debtor of Kshs 30,000 by a direct bank transfer had not been entered in the debtor's account
 - iv) A cash purchase of Kshs 464 had been recorded in the cash book only
 - v) Kshs 4,400 received from a debtor had been debited to his account.

You are required to show:

1. The necessary journal entries to correct the above errors
2. Suspense account duly balanced (13 marks).